

Litchfield Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2008

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Independent Auditors' Report

Board of Education
Litchfield Community Schools
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Litchfield Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Litchfield Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Litchfield Community Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Litchfield Community Schools will continue as a going concern. As discussed in Note 14 to the financial statements, the District has had declining enrollment, which has resulted in a minimal fund balance for the General Fund. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.


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The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Litchfield Community School's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.


Willis & Jurasek, P.C.

November 12, 2008



Litchfield Community Schools

Management's Discussion and Analysis Year Ended June 30, 2008

Litchfield Community Schools is a K-12 public school District located in Branch, Calhoun, Hillsdale and Jackson Counties, Michigan. The Management's Discussion and Analysis represents the administration's review of the District's financial performance during the fiscal year ended June 30, 2008, and is intended to be read in conjunction with the District's financial statements.

Generally accepted accounting principles (GAAP) require the reporting of the following types of financial statements: District-wide financial statements, Fund-level financial statements, and Fiduciary Fund statements.

District-wide Financial Statements:

District-wide financial statements provide information about the activities of the entire school district. They present an overall view of the District's finances, reporting the District's assets and liabilities on a both short and long term basis. District-wide financial statements are reported on a full accrual basis.

Fund-level Financial Statements:

Fund-level financial statements are reported on a more detailed level than government-wide statements. Fund level statements provide information on the District's most significant funds which is the General Fund. The 2005 Debt Service Fund, Food Service Fund and Athletic Fund are combined and presented in a single column labeled Nonmajor Governmental Funds. Fund financial statements are reported on a modified accrual basis, reporting only those assets that are "measurable" and "currently available". Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

Fiduciary Fund Statements:

The Statement of Fiduciary Net Assets presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents. These activities are excluded from the District's other financial statements because as a fiduciary, the District is unable to use these assets for its operations. The District's responsibility for assets reported in the Statement of Fiduciary Net Assets is to ensure the funds are used for their intended purposes.



Litchfield Community Schools

Management's Discussion and Analysis
Year Ended June 30, 2008

Summary of Net Assets:

The following table summarizes the District's net assets for the fiscal years ended June 30, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$1,856,437	\$1,447,024
Capital assets	7,834,518	8,259,518
Less: accumulated depreciation	<u>(4,144,374)</u>	<u>(4,190,516)</u>
Capital assets, net	<u>3,690,144</u>	<u>4,069,002</u>
Total assets	<u>\$5,546,581</u>	<u>\$5,516,026</u>
Liabilities		
Current liabilities	\$1,659,799	\$1,387,528
Long-term liabilities	<u>2,521,904</u>	<u>2,791,684</u>
Total liabilities	<u>4,181,703</u>	<u>4,179,212</u>
Net Assets		
Investment in capital assets, net of related debt	1,278,240	1,413,086
Restricted for debt service	101,247	17,090
Unrestricted	<u>(14,609)</u>	<u>(93,362)</u>
Total net assets	<u>1,364,878</u>	<u>1,336,814</u>
Total liabilities and net assets	<u>\$5,546,581</u>	<u>\$5,516,026</u>



Litchfield Community Schools

Management's Discussion and Analysis
Year Ended June 30, 2008

Results of Operations:

For the fiscal years ended June 30, 2008 and 2007, the District-wide results of operations were:

	<u>2008</u>	<u>2007</u>
Revenues:		
Program Revenues		
Charges for service	\$ 80,788	\$ 103,634
Operating grants	415,117	556,185
General Revenues		
Property taxes	1,207,266	1,009,348
State school aid – unrestricted	2,225,342	2,589,127
Other	<u>(94,265)</u>	<u>99,928</u>
Total revenues	<u>\$3,834,248</u>	<u>\$4,358,222</u>
Functions/Program Expenses:		
Instruction	2,191,146	2,531,556
Supporting services	959,104	1,093,432
Food service	191,687	209,803
Athletics	93,600	116,527
Community service	-	73
Other	71,550	59,207
Interest on long-term debt	75,240	91,629
Unallocated depreciation	<u>223,858</u>	<u>235,244</u>
Total expenses	<u>\$3,806,185</u>	<u>\$4,337,471</u>
Increase (Decrease) in Net Assets	<u>\$ 28,064</u>	<u>\$ 20,751</u>



Analysis of Financial Position:

As detailed above, the District shows a positive total net asset value of \$1,364,878 as of year ended June 30, 2008. This statement has been affected by the following factors:

- The overall condition of all funds and instructional activities remains sound for the District and if all goals related to the financial activities have been met, and if revenue and expenditure patterns can be maintained, sufficient resources for the next fiscal year will be available.
- A major construction project became necessary to expand facilities to meet the needs of the students. A new high school gymnasium and new middle classrooms were added to the facilities in 1997. Significant debt (\$3.7 million) was incurred by the District to pay for the facility modification projects. This debt was refinanced in 2005.
- The District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the overall health of the School District.

During fiscal year ended June 30, 2008, the District's net assets increased by \$28,064. Several factors that helped cause the increase are discussed in the following sections.

A. Governmental Fund Operating Results

The District's revenues exceeded expenditures from governmental fund operations by \$136,034 for the fiscal year ended June 30, 2008. Further discussion of the District's operating results is available in the section entitled "Results of 2007-2008 Operations" located on the following page.

B. Depreciation Expenses in Excess of Capital Outlay

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2007-08, District assets depreciated faster than the District's investment in new or replacement assets, causing a reduction in net District assets. The District's overall net capital assets were reduced by \$378,858. The two components of this number were depreciation expense of \$223,858 and a write-down of an unused building by \$155,000.

C. Long-Term Debt Activities

The District's net long-term debt liabilities decreased during 2007-2008 by \$269,780.



Results of 2007-2008 Operations

1. General Fund Operations

The General Fund functions as the District's primary operating fund. All revenues and expenditures required to operate direct and indirect instructional programs are recorded in the General Fund. The General Fund records all expenditures for instruction, supporting services for instruction, administration, maintenance, and transportation.

For the 2007-2008 fiscal year, revenues for the District's General Fund operations exceeded expenditures by \$52,004. The following table provides a history of General Fund revenues, expenditures, operating results, and fund balance reserves.

<u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Surplus/ (Deficit)</u>	<u>Fund Balance</u>
2007-08	\$3,394,412	\$3,247,568	\$52,004	\$89,324
2006-07	3,821,315	3,772,048	49,267	37,320
2005-06	3,798,437	3,837,476	(39,039)	(11,947)
2004-05	3,863,471	3,988,011	(124,540)	27,092
2003-04	4,026,566	3,976,316	50,250	151,632
2002-03	4,170,704	4,265,796	(95,092)	101,382
2001-02	4,356,548	4,302,478	54,070	196,474
2000-01	4,268,644	4,456,696	(188,052)	142,404
1999-00	3,950,066	4,309,180	(359,114)	330,456



2. **School Service Funds**

The District operates a Food Service program, providing lunch to students during the school day, and catering services to various District events. Revenues from food service operations for 2007 – 2008 amounted to \$165,681, a decrease of \$26,181 from the prior year. Additionally, the fund received financial support from the General Fund in the amount of \$19,840. Food services expenditures amounted to \$191,687 for the 2007 – 2008 year. Had the General Fund not provided support to the Cafeteria Fund, expenditures would have exceeded revenues by \$26,006.

The District also operates an Athletic Fund, which provides athletic opportunities to our students outside the school day. Revenues from the Athletic Fund for 2007 – 2008 school year amounted to \$25,747. This was a decrease of \$9,418 from the prior year. The General Fund provided additional support in the amount of \$75,000.

Athletic Fund expenditures amounted to \$93,600. This was a decrease of \$22,927 from the prior year. Had the General Fund not provided support to the Athletic Fund, expenditures would have exceeded revenues by \$67,853.

3. **Debt Service Fund Operations**

The Debt Service funds consist of the 2005 and Durant Debt Funds. The Debt Service Funds are set up to collect taxes and pay annual debt payments. At June 30, 2008, the Debt Service Funds had \$148,372 in fund balance available for future bond payments.

The School District levies taxes to make debt payment obligations. The District issued bonds in 1997 (refinanced in 2005) to finance the acquisition, new construction, and remodeling of the existing school facilities.

IMPORTANT ECONOMIC FACTORS

A. **State of Michigan Unrestricted Aid (Net State Foundation Grant)**

State of Michigan unrestricted aid (i.e. foundation grant) is determined by the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.



- b. Student enrollment is determined by a weighted average of 75 percent of the current fiscal year's fall enrollment and 25 percent of the prior fiscal year's winter enrollment.
- c. The District's tax levy placed on non-homestead property.

B. Per Student Foundation Allowance:

The State of Michigan annually establishes a foundation allowance for each enrolled student. Litchfield Community School District's foundation allowance for the 2007 – 2008 fiscal year amounted to \$7,204 per pupil. The State Aid Act for fiscal year ending June 30, 2009 calls for a per pupil allowance of \$7,316.

C. Student Enrollment:

Enrollment in the District during the fall count (September, 2006) amounted to 476 students. District enrollment has decreased each year over the five-year period except for one year. Fall student enrollments for the past five years are summarized in the table below:

	<u>Student Enrollment</u>	<u>Increase/Decrease from Prior Year</u>
2007-2008	387	(89)
2006-2007	476	(2)
2005-2006	478	(31)
2004-2005	509	(28)
2003-2004	537	(13)
2002-2003	550	(45)
2001-2002	595	+1

Litchfield Community Schools is continuing to experience a decline in student population through schools-of-choice, attrition, and due to the economic situation in the State of Michigan and in particular, in Hillsdale County. The District's enrollment losses due to schools-of-choice are subsiding and new student enrollments nearly equal those losses. Our upper grades are currently our largest classes, so the District will likely continue to experience enrollment declines over the next several years.



D. Property Taxes Levied from General Operations (General Fund Non-Homestead Taxes)

The District is authorized to levy 18 mills of property taxes on Non-Homestead properties for operations (General Fund). Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's Consumer Price Index or CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for the 2007 – 2008 fiscal year was \$775,896.

E. Property Taxes Levied for Repayment of Debt

The District's debt fund tax levy is used to pay the principal and interest on long-term bond obligations. The bond obligations exist as a result of capital project elections, which were approved by the electorate. Debt fund taxes are levied on the taxable valuation of all properties, homestead and non-homestead. The debt millage fund tax levy for the 2007 – 2008 year was 2.95 mills. Total 2007 – 2008 revenue generated by debt fund taxes amounted to \$333,796.

Analysis of Original Budget, Final Budget, and Actual Results:

The Uniform Budget Act of the State of Michigan requires the Board of Education to approve an original budget for the upcoming fiscal year prior to the start of the fiscal year on July 1. Litchfield Community Schools amends its budget two times each year. For the 2007 – 2008 fiscal year, the budget was amended in December 2007 and June 2008. The June 2008 budget amendment was the final budget for the fiscal year.

Changes from Original Budget, Final Budget, and Actual:

	Original Budget (Adopted June 2007)	Final Budget (Adopted June 2008)	Actual Year Ended June 30, 2008
Total Revenues	\$3,502,953	\$3,377,948	\$3,394,412
Total Expenditures	\$3,424,591	\$3,369,947	\$3,342,408

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's office at 210 Williams Street, Litchfield, Michigan 49252 or visit our web-site at www.litchfieldschools.com.

Litchfield Community Schools
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 1,410,898
Receivables:	
Due from other funds	184
Due from other governmental units	416,408
Inventories	3,887
Prepaid expenses	25,060
Capital assets less accumulated depreciation of \$4,144,374	<u>3,690,144</u>
Total assets	<u>5,546,581</u>
Liabilities:	
Accounts payable	10,784
State aid anticipation loan	1,100,000
Accrued payroll	199,001
Accrued interest	47,125
Deferred revenue	24,638
Due to other governmental units	172,000
Other liabilities	106,251
Long-term liabilities:	
Bonds payable, due within one year	249,654
Other obligations, due within one year	50,813
Bonds payable, due in more than one year	2,099,725
Other obligations, due in more than one year	<u>121,712</u>
Total liabilities	<u>4,181,703</u>
Net Assets:	
Investment in capital assets - net of related debt	1,278,240
Restricted for debt service	101,247
Unrestricted	<u>(14,609)</u>
Total net assets	<u>\$ 1,364,878</u>

Litchfield Community Schools

Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expenses) Revenues and Change in Net Assets
Primary Government				
Governmental activities:				
Instruction	\$ 2,191,146	\$ -	\$ 304,566	\$ (1,886,580)
Support services	959,104	-	-	(959,104)
Food service activities	191,687	55,080	110,551	(26,056)
Athletic activities	93,600	25,708	-	(67,892)
Other	71,550	-	-	(71,550)
Interest on long-term debt	75,240	-	-	(75,240)
Depreciation (unallocated)	223,858	-	-	(223,858)
Total governmental activities	\$ 3,806,185	\$ 80,788	\$ 415,117	(3,310,280)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				806,468
Property taxes, levied for debt services				400,798
State aid not restricted to specific purposes				2,225,342
Interest and investment earnings				20,050
Other				(114,315)
Total general revenues				3,338,344
Change in Net Assets				28,064
Net Assets - Beginning of Year				1,336,814
Net Assets - End of Year				\$ 1,364,878

See Notes to Financial Statements.

Litchfield Community Schools

Balance Sheet
Governmental Funds
June 30, 2008

	Other Nonmajor Governmental		
	General	Funds	Total
<u>Assets</u>			
Cash and investments	\$ 1,174,290	\$ 236,608	\$ 1,410,898
Receivables:			
Due from other governmental units	415,160	1,248	416,408
Due from other funds	140,299	65,092	205,391
Inventories	-	3,887	3,887
Prepaid expenditures	21,560	3,500	25,060
Total assets	<u>\$ 1,751,309</u>	<u>\$ 310,335</u>	<u>\$ 2,061,644</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ -	\$ 10,784	\$ 10,784
State aid anticipation loan	1,100,000	-	1,100,000
Due to other funds	65,092	140,115	205,207
Due to other governmental units	172,000	-	172,000
Salaries payable	194,104	4,897	199,001
Accrued expenditures	40,480	-	40,480
Deferred revenue	24,538	100	24,638
Other liabilities	65,771	-	65,771
Total liabilities	<u>1,661,985</u>	<u>155,896</u>	<u>1,817,881</u>
Fund Balances:			
Reserved for debt service	-	148,372	148,372
Reserved for inventory	-	3,887	3,887
Reserved for prepaid expenditures	21,560	3,500	25,060
Unreserved; undesignated, reported in:			
General fund	67,764		67,764
Special revenue funds	-	(1,320)	(1,320)
Total fund balances	<u>89,324</u>	<u>154,439</u>	<u>243,763</u>
Total liabilities and fund balances	<u>\$ 1,751,309</u>	<u>\$ 310,335</u>	<u>\$ 2,061,644</u>

See Notes to Financial Statements.

Litchfield Community Schools
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
Governmental Funds
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 243,763
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	\$ 7,834,518
Accumulated depreciation is	<u>(4,144,374)</u>
	3,690,144
Long-term liabilities not due and payable in the current period and not reported in the funds:	
Bonds payable	(2,349,379)
Installment purchase agreements	(62,525)
Compensated absences	(92,000)
Contract buyouts	(18,000)
Accrued interest payable is not included as a liability in governmental activities.	<u>(47,125)</u>
Total Net Assets - Governmental Activities	<u>\$ 1,364,878</u>

Litchfield Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	General	Other Nonmajor Governmental Funds	Total
Revenues:			
Local sources	\$ 852,380	\$ 484,286	\$ 1,336,666
State sources	2,380,163	12,429	2,392,592
Federal sources	149,745	98,122	247,867
Interdistrict and other	12,124	-	12,124
Total revenues	<u>3,394,412</u>	<u>594,837</u>	<u>3,989,249</u>
Expenditures:			
Instruction	2,222,153	-	2,222,153
Support services	953,865	-	953,865
Athletic activities	-	93,600	93,600
Food service activities	-	191,687	191,687
Other	71,550	-	71,550
Debt service:			
Principal payments	-	225,000	225,000
Interest and fiscal charges	-	95,360	95,360
Total expenditures	<u>3,247,568</u>	<u>605,647</u>	<u>3,853,215</u>
Revenues Over (Under) Expenditures	<u>146,844</u>	<u>(10,810)</u>	<u>136,034</u>
Other Financing Sources (Uses):			
Operating transfers in	-	94,840	94,840
Operating transfers out	(94,840)	-	(94,840)
Total other financing sources (uses)	<u>(94,840)</u>	<u>94,840</u>	<u>-</u>
Net Changes in Fund Balances	52,004	84,030	136,034
Fund Balances - Beginning of Year	<u>37,320</u>	<u>70,409</u>	<u>107,729</u>
Fund Balances - End of Year	<u>\$ 89,324</u>	<u>\$ 154,439</u>	<u>\$ 243,763</u>

Litchfield Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2008

Net Changes in Fund Balances - Total Governmental Funds	\$ 136,034
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	\$ (223,858)
Loss of value on depreciable asset	(155,000)
Capital outlay	<u>-</u>
	(378,858)
Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.	
	1,108
Bond proceeds and other long-term debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.	
Loan proceeds	-
Repayments:	
Principal and other long-term debt payments	<u>244,012</u>
	244,012
Changeses in compensated absences and contract buyouts are reported in the Statement of Activities when incurred; such changes are not reported in governmental funds.	
	<u>25,768</u>
Change in Net Assets of Governmental Activities	<u>\$ 28,064</u>

See Notes to Financial Statements.

Litchfield Community Schools
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

**Agency Fund -
Student
Activities**

Assets:

Cash and cash equivalents

\$ 47,749

Liabilities:

Due to other funds

\$ 184

Due to student groups

47,565

\$ 47,749

Litchfield Community Schools
Statement of Change in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2008

	<u>Private Purpose Trust Funds</u>
Revenues:	
Gifts and contributions	\$ -
Interest and investment earnings	-
Net decrease in fair value of investments	-
Total revenues	<u>-</u>
Expenses:	
Transfer to Community Foundation	110,681
Other expenses	-
Total expenses	<u>110,681</u>
Change in Net Assets	(110,681)
Net Assets - Beginning of Year	<u>110,681</u>
Net Assets - End of Year	<u>\$ -</u>

Litchfield Community Schools

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Litchfield Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Litchfield Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide Statements (Continued) - Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds maintained by the District are the Athletics Fund and Food Service Fund.

Debt Funds – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof on a particular bond issue. The District maintains the 2005 Debt Fund and the Durant Debt Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. The District maintains a Scholarship Fund to record transactions involving scholarship monies and distributions to recipients. The funds were transferred to the Community Foundation during the 2007-2008 year.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

Litchfield Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit. Investments consist of pooled investment funds.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – Non-homestead	18.00
Debt Fund – Homestead and Non-homestead	2.95

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

Litchfield Community Schools

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables and Payables (Continued) - The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	20 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

Compensated Absences – Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

Accrued Interest Payable – Accrued interest is presented for long-term obligations in the district-wide statements in two components: interest payable on general obligation bonds and interest payable on Durant Resolution bonds.

Deferred Revenues – The unexpended balance of various federal and/or State categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, summer school lunch, community education programs, and recreational programs are also deferred.

Short-Term Note Obligations – Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year, the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2008, and anticipated State Aid is expected to be sufficient to cover this commitment.

Litchfield Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information - Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information. However, the District maintains its budgets at the functional level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
2. Public hearings are conducted to obtain taxpayer comments.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

Litchfield Community Schools
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability (Continued)

4. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund are noted in the required supplemental information section.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

Excess of Expenditures over Appropriations – For the year ended June 30, 2008, expenditures that exceeded appropriations in the General Fund are disclosed in the Required Supplemental Information on page 21.

Note 3 – Deposits and Investments

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and investments	\$ <u>1,410,898</u>	\$ <u>47,749</u>	\$ <u>1,458,647</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 153,935
Investments in MLAFP – Cash Management Funds	1,196,026
Investments in Automated Cash Management Trust	<u>108,686</u>
Total	\$ <u>1,458,647</u>

Investment and Deposit Risk

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The School's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment in the MLAFP and Automated Cash Management Trust had an average maturity of less than 1 year.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The School's investments policy does not have specific limits in excess of State law on investment credit risk. The District's investment in the Cash Management Funds were rated AAAM by Standard & Poor's.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. The School has not adopted and State law does not require a policy for deposit custodial credit risk. As of year end, \$85,063 of the School's bank balance of \$185,063 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Litchfield Community Schools
Notes to Financial Statements

Note 4 – Receivables

Receivables at June 30, 2008, consist of the following:

Other governmental units (primarily Michigan Department of Education)	\$ <u>416,408</u>
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Note 5 – Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital assets being depreciated:				
Buildings and additions	5,775,770	-	425,000	5,350,770
Site improvements	189,000	-	-	189,000
Buses and other vehicles	247,870	-	-	247,870
Furniture and equipment	2,021,878	-	-	2,021,878
Subtotal	8,234,518	-	425,000	7,809,518
Accumulated depreciation:				
Buildings and additions	2,291,091	104,063	270,000	2,125,154
Site improvements	123,600	7,600	-	131,200
Buses and other vehicles	210,549	10,438	-	220,987
Furniture and equipment	1,565,276	101,757	-	1,667,033
Subtotal	4,190,516	223,858	270,000	4,144,374
Net capital assets being depreciated	4,044,002	(223,858)	155,000	3,665,144
Net capital assets	\$4,069,002	\$ (223,858)	\$ (155,000)	\$3,690,144

Depreciation for the fiscal year ended June 30, 2008 totaled \$223,858. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions. Also, the District closed the elementary building at the beginning of the fiscal year, resulting in a reduction to the carrying value down to its estimated salvage value.

Note 6 – Note Payable

During the year, the District issued a State Aid anticipation note dated August, 2007 maturing August, 2008 in the amount of \$984,000 with an interest rate of 3.68%. The note was renewed in August, 2008 for \$800,000 with an interest rate of 2.301%.

<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2008</u>
\$ 984,000	\$ 1,100,000	\$ 984,000	\$ 1,100,000

Litchfield Community Schools
Notes to Financial Statements

Note 7 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The composition of interfund balances is as follows:

Due From:	Due To			Total
	General	Athletic	2005 Debt	
General	\$ -	\$ 1,597	\$ 63,495	\$ 65,092
Food Service	93,632	-	-	93,632
Athletics	46,483	-	-	46,483
Agency Fund	184	-	-	184
	<u>\$ 140,299</u>	<u>\$ 1,597</u>	<u>\$ 63,495</u>	<u>\$ 205,391</u>

During the current fiscal year, the General Fund transferred \$75,000 to the Athletics Fund to subsidize the activities of the Athletics Fund and transferred \$19,840 to the Food Service Fund to subsidize the activities of the Food Service Fund.

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds	\$ 2,574,379	\$ -	\$ 225,000	\$ 2,349,379	\$ 249,654
Installment loans	81,537	-	19,012	62,525	19,013
Contract buyouts	46,000	-	28,000	18,000	18,000
Compensated absences	<u>89,768</u>	<u>2,232</u>	<u>-</u>	<u>92,000</u>	<u>13,800</u>
Total governmental activities	<u>\$ 2,791,684</u>	<u>\$ 2,232</u>	<u>\$ 272,012</u>	<u>\$ 2,521,904</u>	<u>\$ 300,467</u>

Litchfield Community Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

General Obligation Bonds – The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2008:

\$2,755,000 Refunding Bonds dated April 1, 2005, due in annual installments of \$225,000 - \$330,000 through May 1, 2016; interest ranging from 3.3% to 4.2%, payable semi-annually.	\$ 2,300,000
\$83,628 Durant Resolution Bonds dated September 14, 1998, due in annual installments of \$4,654 - \$29,136 through May 15, 2013; interest at 4.70%.	<u>49,379</u>
Total long-term debt	\$ <u>2,349,379</u>

Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources.

Installment Loans – \$49,776 - Fiber Optic Loan Phase 1
Loan payable to Hillsdale ISD for the installation of fiber
optic lines payable in annual installments of \$4,938 through
2012, plus interest at 4.05% \$ 19,750

Installment Loans – \$59,075 - Fiber Optic Loan Phase 2
Loan payable to Hillsdale ISD for the installation of fiber
optic lines payable in annual installments of \$4,875 through
2013, plus interest at 3.48% 24,375

Installment Loans - \$55,709 Installment Purchase Agreement
dated February 18, 2004 due in installments of \$9,200
with interest of 3.0%, payable annually through 2010. 18,400

Total installment loans \$ 62,525

Annual debt service requirements for Bonded Debt and Installment Loans are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 268,667	\$ 91,314	\$ 359,981
2010	283,888	82,362	366,250
2011	284,921	72,514	357,435
2012	318,948	71,980	390,928
2013	305,480	50,917	356,397
2014 – 2016	<u>950,000</u>	<u>79,610</u>	<u>1,029,610</u>
Total	\$ <u>2,411,904</u>	\$ <u>448,697</u>	\$ <u>2,860,601</u>

Litchfield Community Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

Contract Buyouts - In recognition of services to the District, a severance payment is made to eligible employees with at least ten years of service according to their respective employment contracts. The program was established in accordance with IRS rules which allow contributions to be made to the plan that are not subject to payroll taxes. The District has bought out the contract of one individual. The payments for this buyout began in fiscal year 2007 and will last two years.

Annual Requirement for Contract Buyouts:

2009	\$ <u>18,000</u>
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Compensated Absences - In recognition of services to the District, a severance payment is made to eligible employees based upon their respective employment contracts. Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating their terminal and sick leave liabilities. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2008 for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees' salaries for the year ended June 30, 2008 and multiplying it by the applicable years of service percentage. Both of these amounts are multiplied by an historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2008, which has been recorded in the district-wide financial statements, is as follows:

Severance payable	\$ 85,500
Payroll taxes	<u>6,500</u>
	\$ <u>92,000</u>

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, MI 48909 or by calling (517) 322-6000.

Litchfield Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.35% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, in any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74 percent for the period from July 1, 2007 through September 30, 2007 and 16.72 percent for the period October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The School District's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were approximately \$346,000, \$370,000, and \$355,000, respectively.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Post-Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

Note 10 – Risk Management

The School District participates in a pool, the MASB-SEG Property and Casualty Pool, with other school districts for property, fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended, as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The School District has purchased commercial insurance for employee health and accident insurance.

Litchfield Community Schools
Notes to Financial Statements

Note 11 – Federal and State Grants

The District has received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, management believes that any required reimbursements would not be material.

Note 12 – Contingency

Currently, a property holder within the District is appealing a personal property tax case with the State Tax Commission. Should the Commission rule in favor of the appealing party, the District would be required to repay approximately \$65,000 from the debt service funds. The possibility of this outcome is unknown, and thus the amount has not been recorded as a liability.

Note 13 – Retirement Obligation

The District has received notification from the Office of Retirement Services of the State of Michigan that the District currently owes approximately \$50,000 in past contributions. The District is currently disputing this amount and the actual amount of a liability, if any, is unknown and has therefore not been recorded in the financial statements.

Note 14 – Going Concern

The District has experienced declining enrollment for the past several years. That, along with slow growth in revenues, has resulted in a very minimal fund balance in the General Fund of the District, raising concerns about the stability of the District's operations. As a result of these financial constraints, the District closed one building; it is carefully reviewing the budget for reductions in expenditures, including staffing; and it is looking into collaborative efforts with other area districts to explore further cost reductions. The ability of the District to continue as a going concern is dependent on whether it can continue to meet student needs with the limited funds available. The financial statements do not include any adjustments that might be necessary if the District is unable to continue as a going concern.

Required Supplemental Information

Litchfield Community Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2008

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 705,671	\$ 824,824	\$ 852,380
State sources	2,618,719	2,365,978	2,380,163
Federal sources	176,263	177,146	149,745
Other	2,300	10,000	12,124
Total revenues	<u>3,502,953</u>	<u>3,377,948</u>	<u>3,394,412</u>
Expenditures:			
Instruction:			
Basic programs	1,621,586	1,576,418	1,577,089
Added needs	721,963	638,019	645,064
Support Services:			
Pupil and instructional staff	89,994	141,070	53,143
General administration	77,074	101,171	103,265
School administration	143,027	160,339	155,473
Business	152,893	146,118	150,779
Operation and maintenance	299,586	306,688	306,593
Pupil transportation	146,860	138,572	142,236
Other line, debt service	76,768	66,712	113,926
Total expenditures	<u>3,329,751</u>	<u>3,275,107</u>	<u>3,247,568</u>
Revenues Over (Under) Expenditures	<u>173,202</u>	<u>102,841</u>	<u>146,844</u>
Other Financing Sources (Uses):			
Operating transfers out	(94,840)	(94,840)	(94,840)
Total other financing sources (uses)	<u>(94,840)</u>	<u>(94,840)</u>	<u>(94,840)</u>
Net Changes in Fund Balances	78,362	8,001	52,004
Fund Balances - Beginning of Year	<u>37,320</u>	<u>37,320</u>	<u>37,320</u>
Fund Balances - End of Year	<u>\$ 115,682</u>	<u>\$ 45,321</u>	<u>\$ 89,324</u>

Other Supplemental Information

Litchfield Community Schools

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
	2005		Durant	
	<u>Athletics</u>	<u>Food Service</u>	<u>Debt Fund</u>	<u>Debt Fund</u>
				<u>Total</u>
\$	52,443 \$	99,288 \$	84,877 \$	- \$
	-	1,248	-	-
	1,597	-	63,495	-
	-	3,887	-	-
	-	3,500	-	-
\$	<u>54,040 \$</u>	<u>107,923 \$</u>	<u>148,372 \$</u>	<u>- \$</u>
				<u>310,335</u>

Assets

Cash
 Due from other governmental units
 Due from other funds
 Inventory
 Prepaid expenditures
 Total assets

Liabilities and Fund Balances

Liabilities:

Accounts payable	\$	- \$	10,784 \$	- \$	- \$	10,784
Salaries payable		-	4,897	-	-	4,897
Due to other funds		46,483	93,632	-	-	140,115
Deferred revenue		100	-	-	-	100
Total liabilities		<u>46,583</u>	<u>109,313</u>	<u>-</u>	<u>-</u>	<u>155,896</u>

Fund Balances:

Reserved for debt service		-	-	148,372	-	148,372
Reserved for inventory		-	3,887	-	-	3,887
Reserved for prepaids		-	3,500	-	-	3,500
Unreserved: undesignated		<u>7,457</u>	<u>(8,777)</u>	<u>-</u>	<u>-</u>	<u>(1,320)</u>
Total fund balances		<u>7,457</u>	<u>(1,390)</u>	<u>148,372</u>	<u>-</u>	<u>154,439</u>

Total liabilities and fund balances

\$	<u>54,040 \$</u>	<u>107,923 \$</u>	<u>148,372 \$</u>	<u>- \$</u>	<u>- \$</u>	<u>310,335</u>
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Litchfield Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		
			2005		Durant
	<u>Athletics</u>	<u>Food Service</u>	<u>Debt Fund</u>	<u>Debt Fund</u>	<u>Total</u>
Revenues:					
Local sources	\$ 25,747	\$ 55,130	\$ 403,409	\$ -	\$ 484,286
State sources	-	12,429	-	-	12,429
Federal sources	-	98,122	-	-	98,122
Total revenues	<u>25,747</u>	<u>165,681</u>	<u>403,409</u>	<u>-</u>	<u>594,837</u>
Expenditures:					
Athletic activities	93,600	-	-	-	93,600
Food service activities	-	191,687	-	-	191,687
Debt service	-	-	320,360	-	320,360
Total expenditures	<u>93,600</u>	<u>191,687</u>	<u>320,360</u>	<u>-</u>	<u>605,647</u>
Revenues Over (Under) Expenditures	<u>(67,853)</u>	<u>(26,006)</u>	<u>83,049</u>	<u>-</u>	<u>(10,810)</u>
Other Financing Sources (Uses):					
Operating transfers in	75,000	19,840	-	-	94,840
Total other financing sources (uses)	<u>75,000</u>	<u>19,840</u>	<u>-</u>	<u>-</u>	<u>94,840</u>
Net Changes in Fund Balances	<u>7,147</u>	<u>(6,166)</u>	<u>83,049</u>	<u>-</u>	<u>84,030</u>
Fund Balances - Beginning of Year	<u>310</u>	<u>4,776</u>	<u>65,323</u>	<u>-</u>	<u>70,409</u>
Fund Balances - End of Year	<u>\$ 7,457</u>	<u>\$ (1,390)</u>	<u>\$ 148,372</u>	<u>\$ -</u>	<u>\$ 154,439</u>

Litchfield Community Schools
Schedule of Bonded Debt
June 30, 2008

2005 Refunding Bonds	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year		Bonds Outstanding June 30, 2008
					Interest Requirements	Principal Requirements	
	April 1, 2005	\$ 2,755,000	3.300%	5/1/2009	\$ 87,895	\$ 245,000	\$ 245,000
			3.450%	5/1/2010	79,810	260,000	260,000
			3.600%	5/1/2011	70,840	270,000	270,000
			3.800%	5/1/2012	61,120	280,000	280,000
			3.900%	5/1/2013	50,480	295,000	295,000
			4.000%	5/1/2014	38,975	305,000	305,000
			4.100%	5/1/2015	26,775	315,000	315,000
			4.200%	5/1/2016	13,860	330,000	330,000
							<u>\$ 2,300,000</u>

Durant Bonds	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year		Bonds Outstanding June 30, 2008
					Interest Requirements	Principal Requirements	
	September 14, 1998	\$ 83,628	4.70%	5/15/2009	\$ 1,219	\$ 4,654	\$ 4,654
			4.70%	5/15/2010	997	4,876	4,876
			4.70%	5/15/2011	765	5,108	5,108
			4.70%	5/15/2012	10,321	29,136	29,136
			4.70%	5/15/2013	267	5,605	5,605
							<u>\$ 49,379</u>



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with
Government Auditing Standards**

Board of Education
Litchfield Community Schools
Litchfield, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Litchfield Community Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Litchfield Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described as 2008-1, 2008-2 and 2008-3 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We believe the significant deficiencies described as 2008-1, 2008-2, and 2008-3 to be material weaknesses.

WILLIS & JURASEK, P.C.

2545 Spring Arbor Road
Suite 200
Jackson, MI 49203-3690

Board of Education
Litchfield Community Schools
Litchfield, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Litchfield Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Education, management and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 12, 2008

To Board of Education
Litchfield Community Schools
Litchfield, Michigan

Schedule of Findings and Responses

Finding 2008-1

Currently, the District's staff prepares the interim internal financial statements that allows for management and oversight of the District, but relies on assistance from us in preparing the year end financial statements and footnotes. Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the year-end financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Finding 2008-2

Currently, the District lacks proper segregation of duties as it relates to the financial recording and reporting of the District. We recommend control procedures be developed and implemented. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response

We agree with this recommendation and will implement procedures to allow for review processes of the financial functions and reporting of the District.

Finding 2008-3

During the course of our audit, we made material adjustments to the financial statements. By definition, this is considered a material weakness under SAS #112.

Client Response

We are aware of and agree with the adjustments that were made. We will implement review procedures in conjunction with the control procedures noted above to ensure these items are adjusted in the future.



November 12, 2008

Board of Education
Litchfield Community Schools
Litchfield, Michigan

We have audited the financial statements of Litchfield Community Schools for the year ended June 30, 2007, and have issued our report thereon dated November 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- An asset appraisal was done in prior years, which was used to establish the bulk of your fixed asset balances to be recorded in the Statement of Net Assets.
- Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$92,000.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process. Management has approved all adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.